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**Radio Free Europe**

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**Radio Free Europe:** Mr. Pascual for my first question I will appeal to your experience as Ambassador in the Ukraine. Energy dependence, especially the price for the natural gas has been the main argument that was used by Russian Federation to convince Ukraine not to sign an association agreement with the European Union. For another country from the eastern partnership for Romania, Russia promised a discount of gas. And as we know, Armenia just abandoned the idea to sign a similar agreement with the European Union.

In your opinion, what can be done in the case of Republic of Moldova so that energy dependence will not be used as a political tool by Russia?

**Mr. Pascual:** I think you raise a critical issue which is how to ensure the kind of market environment and policy environment where energy cannot be used as a political tool, cannot be used to influence the internal decisions of another country.

Over time one of the things that we have learned is that the most effective weapon against this kind of political dependency is to operate and work in a market environment where there's competition and where countries have choices.

When you have no choice over a strategic commodity, then countries become vulnerable. So one of the things that has been so important in Europe is that over the past five years Europe has taken major steps to change both its regulatory situation and its ability to have competitive supplies to gas. They've put in place the third energy package. It ensures that now a country cannot own the gas, own the pipelines and own the distribution systems. It's taken away what are called destination clauses so if a country like Germany buys the gas, once it gets to Germany, it's Germany's gas and they are able to sell it and trade it to others which allows for a whole new market environment. They've made investments in infrastructure

so that you can now trade gas from west to east, north to south, south to north.

The other critical issue has been the availability of much more gas on international markets. In part this has been because of the United States. Not because we have exported gas yet, we have only approved recently six different export licenses, but they won't begin to export until 2015 and others will come on line after that. But because we're producing so much more gas in the United States, we haven't been importing gas that once was planned to be sent to the United States from Qatar, Trinidad and Tobago, Nigeria, and other places. That has become available in the market.

So all of these things together have created a much better environment for competitive trade in the European market, and that competitive environment allowed every single one of the major European utilities to renegotiate their contracts with GAZPROM, to lower the price and improve the financing terms.

This was not done out of goodwill on anybody's part, but out of sheer commercial sense. And it's indicative of what market power can do.

So the challenge for Moldova is can it associate itself in a way that is integrated with the European market so that Moldova is not standing alone, but takes on the power and the strength that comes when you are associated with a market that has hundreds of millions of consumers and has clear and transparent rules for operating where Moldova is operating on those terms, has physical connections with that market and can use those connections to be able to create a much better contractual, long term relationship with Russia as a supplier.

**Radio Free Europe:** Can Moldova really do that? Because Moldova is a small country and depends 100 percent of, when we're talking about gas.

**Mr. Pascual:** Absolutely Moldova can, because Moldova has already the potential for interconnections with its neighbor Romania. Those physical interconnections have begun to be built. They need to be extended in pipelines coming back into Moldova. But it's not just a question of Moldova and Romania. One has to think about this from the perspective that Romania is interconnected with Hungary, Hungary is interconnected with the wider European market.

So at some point it will be possible, for example, for Moldova to hypothetically purchase gas from Norway. That Norwegian gas will never -- A molecule of that Norwegian gas will never get here to Moldova, but it will come into Germany, it will be traded through the system, and other supplies will be traded backwards into the Moldovan market.

What this means is that there doesn't need to be an absolute substitute for Russian gas, but the ability to compete.

The kind of competition I mentioned earlier in Europe did not replace Russian supplies. In fact in the year 2013 Russian supply into this market increased, but it increased because it was to the advantage of European traders to take advantage of high prices in Asia, move gas into Asia, and be able to bring in an increased Russian supply. They did it out of choice.

So the issue here is to be able to create the choice in the marketplace of who your supplier can be and how much. That's the realistic choice that Moldova has in its future, is how to integrate itself, how to inter-link itself with this wider market. That is something that is very much within its capacity to be able to achieve.

**Radio Free Europe:** We have witnessed several energy projects last year. European Nabucco project. After nearly 11 years this project failed. Another project, it's a [inaudible] project. The first is Russian project. It could be an alternative for European Union. But anyway, because it is not an alternative because the provider, the owner is GAZPROM.

The question is, has the European Union an alternative solution for reducing the energy dependence on Russia?

**Mr. Pascual:** The European Union is putting in many many solutions to create alternative sources of supply.

First of all I would qualify what you said about Nabucco failing. Nabucco was one of two options for a southern corridor to bring gas from Azerbaijan into the European market. The corridor that would have taken it up through Bulgaria and the Balkans did not prove competitive, but what was competitive was a separate corridor that comes through Turkey, goes through Greece and through Albania and into Italy and still comes into the European market.

The final investment decisions on that project were taken in December. It's still proceeding very actively. And the gas supplies that will be coming through that project will be coming into the European market in about 2018. But there are a number of other alternatives that already are being put in place.

Today Europe has the capacity to import through LNG about 170 billion cubic meters of gas. It has huge amounts of excess capacity to import that LNG in many parts of the European market. New terminals are being explored, for example in Kirk Island in Croatia. Poland is putting place a new terminal that will be done by the end of this year. The Baltic countries are putting in at least one terminal. Lithuania has put in a small one. There's a larger one that is under negotiation with the Baltic countries and Finland as well.

Together, all of these mechanisms are creating the capacity to be able to receive supply from many different sources, and if you start to look at who the suppliers are today yes, Russia is a supplier; but Norway in 2012 supplied more gas into the European market than GAZPROM did. Qatar, Trinidad and Tobago, Nigeria. Azerbaijan. In the future, potentially Israel. In the future, other parts of the Mediterranean. This market is changing very rapidly, very quickly, and indeed in the year 2015 we're going to start to see American supplies coming onto the global market as well. Some of the contracts for the purchase of that gas, for example, will be with British gas or gas natural from Spain where they have the ability to trade it wherever the market pulls in the supplies. A very fast-changing market with many new possibilities.

**Radio Free Europe:** Should Russia be concerned that the European Union is trying to become independent energetically?

**Mr. Pascual:** Russia should understand that this is the smart thing to do for any consumer around the world. Indeed, Russia is also looking at this. If you ask the question, why is Russia now so proactively looking at building LNG terminals that can go to Asia, of establishing a pipeline to China? Because the fastest growing demand for gas is now in Asia. This market is changing. Suppliers are going to be looking at new markets. Consumers are going to be looking at how they diversify their supplies. And increasingly what we're going to see is more trade that cuts across different continents, because not only are the supply sources changing, but no longer is the world of gas exclusively dominated by pipeline relationships where you have a supplier at one end of a pipeline and a consumer at the

other end. Increasingly, you have LNG that is bringing competition from different parts of the world.

I don't want to mislead anybody. LNG can be more expensive than pipeline trade. But when you create that kind of competition, it gives you options that puts a limit on what the pipeline suppliers can actually do to use their market strength as geopolitical strength. And that's what we want. We want things to operate on a market basis where geopolitics can be moved aside and you can't use your market strength to begin to dictate the politics of another country.

**Radio Free Europe:** My last question, sir, what is the purpose, or what should Moldova expect from the strategic dialogue between Moldova and the United States? What is the purpose of the working group on energy?

**Mr. Pascual:** I would put this in a way where we're trying to focus on three specific things. First is to understand what are the critical strategic choices that can be taken to be able to help diversify supplies in a European market and how can Moldova participate in that?

We're trying to lend our expertise, have an open dialogue with our Moldovan colleagues, integrate that with the lessons that we're drawing from our work together with the European Union.

Secondly, we're looking at what are the practical ways that one can create the conditions to attract private investment here in Moldova? Because when you look at the energy sector, the requirements for investment over time and the requirements for participating in the market are so large, they're in the billions of dollars year in, year out, that you have to have effective private players in order to be able to sustain and finance these costs.

So what are the conditions necessary to attract private investors?

Finally, the third piece of this is to look at where are there possibilities, where there might be U.S. participation through the private sector, and are there ways that we can facilitate the attractiveness of that financing to help bring private investors in.

So we're at a very early stage in this. We had a very good exchange now on the strategic dimensions. We will continue to

work through these issues in very practical and pragmatic ways with the intent being on how to increase options and choices for Moldovan businesses and for the Moldovan economy to be able to diversify its supplies of energy and to be able to do that in a way that it's good for Moldovan industry and good for Moldovan people.

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